

Reclamation Manual

Directives and Standards

SUPPLEMENT TO THE DEPARTMENT OF THE INTERIOR DEPARTMENTAL ACCOUNTING MANUAL

FILE: 08 ACCOUNTS RECEIVABLE

30 Allowance Account for Doubtful Receivables

Subject(A): Estimating the Allowance for Doubtful Accounts and Loans Receivable

Purpose: Establishes policies, procedures, and responsibilities for reporting accounts/loans receivable on Reclamation's financial statements.

Authority: Department of the Interior, Departmental Accounting Manual (Section 8-30); Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*; SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*; SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*; OMB Circular A-129, *Managing Federal Credit Programs*; and Financial Administration Memorandum No. 2001-014.

Contact: Finance and Accounting Division (FAD), General Accounting and Technical Analysis Group (GATAG), by calling (303) 445-3430.

1. Accounts Receivable.

A. Overview.

- (1) Accounts receivable arise from claims to cash or other assets. Since it is a normal part of doing business that not all receivables are actually collected, an allowance for doubtful accounts should be established to reduce the gross amount of receivables to its estimated net realizable value.
- (2) The allowance for doubtful accounts should take into consideration not only the principal amounts of potentially uncollectible accounts receivable but also the amounts of any interest, penalties, fines, and administrative fees related to such accounts. Shown below are the specific SGL accounts in which these different types of receivables are recorded, as well as their respective contra accounts in which the allowance for loss on these receivables would be recorded:

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	<i>Asset</i>	<i>Contra-asset</i>
Accounts Receivable	131A/131C	1319
Interest Receivable	134A	1349
Penalties, Fines, and Administrative Fees Receivable	136A	1369

- B. Estimate of Allowance for Doubtful Accounts.** Reclamation's best estimate of the amount of receivables that will not be collected is based on the age of receivables. More specifically, the allowance will equal the amount of debt which is more than 180 days old, with some exceptions. Receivables over 180 days under certain overdue status codes will not be included, as determined by the FAD Accounts Receivable and Travel Team. [The approved overdue status codes and titles may be found in the Overdue Status Code Table (OSCT) in the Federal Financial System (FFS), and the definitions of these codes may be viewed on the FAD intranet site.]
- C. Responsibilities.**
- (1) The **Regional Finance Officers** will be responsible for reviewing on a quarterly basis the overdue status codes and dates that have been assigned to delinquent debt to verify their accuracy.
 - (2) The **FAD Accounts Receivable and Travel Team** will be responsible for the following, on a quarterly basis:
 - (a) Reviewing the overdue status codes to determine which should be excluded from the estimate for the allowance for doubtful accounts.
 - (b) Summarizing the Reclamation-wide totals by region and fund to establish the current estimate for the allowance for doubtful accounts.
 - (c) Preparing and entering the document(s) into FFS to adjust the allowance accounts by region and fund to equal the current estimate.
 - (d) Performing a Reclamation-wide analysis of the estimate of the allowance for doubtful accounts for adequacy.
 - (3) The **GATAG** will be responsible for reviewing the final results of the Reclamation-wide analysis from the Accounts Receivable and Travel Team for reasonableness and to ensure that FAD and the regional offices are complying with the intent of this supplement.

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D. Accounting Entries for Allowance Accounts.

- (1) The allowance for doubtful receivables (SGL 1319/1349/1369) is established with a credit balance. The debit entry is to bad debt expense (SGL 6720) for appropriation refunds and exchange revenue. A contra revenue account [SGL 5329 (penalty) or 5909 (non-exchange revenue)] is debited for non-exchange revenues.
- (2) The entries for these SGLs will be made for the total estimated uncollectible amount of receivables by region and fund. At fiscal year end, SGL 6720, 5329, and 5909 will be closed to SGL 331A (Cumulative Results of Operations).
- (3) Each year the allowance accounts will be adjusted upwards or downwards so that the allowance account (SGL 1319/1349/1369) equals the current estimated uncollectible amount for receivables by region and fund. The offsetting entry would be to bad debt expense (SGL 6720) or to contra revenue (SGL 5329 or 5909).

2. Loans Receivable.

A. Overview.

- (1) Current loans receivable are recorded in SGL 135A; potentially uncollectible balances should be recorded in the allowance for doubtful loans receivable, SGL 1359. If it is determined that the current portion of the loan is probably uncollectible, it follows that the long-term portion of the loan in SGL 135B may also be uncollectible. If this is the case, the allowance for doubtful loans receivable should also include the long-term portion of the loan.
- (2) Interest receivable on loans is recorded in SGL 134L; penalties, fines, and administrative fees receivable on loans are recorded in SGL 136L. As with accounts receivable, the allowance for doubtful interest receivable and the allowance for doubtful penalties, fines, and administrative fees receivable are recorded in SGL 1349 and SGL 1369, respectively.
- (3) Loans governed by the Credit Reform Act of 1990 should not be considered or included in the analysis to establish an allowance for doubtful loans receivable. The allowance for Credit Reform Loans is already taken into account in the subsidy analysis for such loans.

- B. Criteria for Collectibility.** Factors which might indicate that collectibility is uncertain include the following:

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- (1) Loan performance experience:
 - Loan being delinquent either presently or intermittently in the past.
 - Payer/debtor having another loan that is delinquent or has been written off.
 - This type/group of loan having a greater than normal number of defaults.
- (2) Current and forecasted international, national, or regional economic conditions that may affect the performance of the loans:
 - Drought conditions or other regional economic conditions indicating potential deferral or non-payment.
- (3) Financial and other relevant characteristics of borrowers:
 - Loans being reviewed for “Ability to Pay.”
 - Loans having been granted “Ability to Pay” relief.
 - Payers/debtors in known financial difficulty.
 - Payments being renegotiated, or renegotiation having been proposed.
 - Billed portions of a loan being delinquent or having been written off.
 - Non-loan bills for the same debtor being delinquent or having been written off.
 - Debtor in bankruptcy.
- (4) Newly developed events that would affect the loan’s performance. An allowance will be booked at the fund and project level for each loan where any one factor would indicate that there is doubt about its collectibility at the present time.

C. Responsibilities.

- (1) The **Regional Finance Officers** will be responsible for reporting to FAD’s GATAG on a quarterly basis, by no later than the 15th day of the month in which each quarter ends, any loan balances that are potentially uncollectible, based on an analysis of both current and long-term loan balances. For each loan which is deemed potentially uncollectible, the following information should be provided:
 - Name of loan
 - Fund
 - Program
 - Cost authority
 - Amount unbilled (with separate columns for principal and interest)
 - Amount billed but not yet paid (with separate columns for principal, interest, penalties, and administrative fees)

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- Factors which might indicate that uncollectibility is uncertain, including individual risk factors associated with groups or categories of similar loans
- (2) **GATAG** will be responsible for:
- Compiling the information provided by the regional offices and entering the document into FFS to adjust the balances in SGL 1349/1359/1369 in accordance with this information, and
 - Reviewing the final results of the Reclamation-wide analysis for reasonableness and to ensure that FAD and the regional offices are complying with the intent of this supplement.

D. **Related References.** FIN 08-20, Reclamation Supplement to the Department of the Interior Departmental Accounting Manual, *Tracking and Write-Off of Delinquent Accounts Receivable*.